

CHAPTER IV

PUBLIC WORKS MEAN TAXES

THERE is no more persistent and influential faith in the world today than the faith in government spending. Everywhere government spending is presented as a panacea for all our economic ills. Is private industry partially stagnant? We can fix it all by government spending. Is there unemployment? That is obviously due to "insufficient private purchasing power." The remedy is just as obvious. All that is necessary is for the government to spend enough to make up the "deficiency."

An enormous literature is based on this fallacy, and, as so often happens with doctrines of this sort, it has become part of an intricate network of fallacies that mutually support each other. We cannot explore that whole network at this point; we shall return to other branches of it later. But we can examine here the mother fallacy that has given birth to this progeny, the main stem of the network.

Everything we get, outside of the free gifts of nature, must in some way be paid for. The world is full of so-called economists who in turn are full of schemes for getting something for nothing. They tell us that the government can spend and spend without taxing at all; that it can continue to pile up debt without ever paying it off, because

“we owe it to ourselves.” We shall return to such extraordinary doctrines at a later point. Here I am afraid that we shall have to be dogmatic, and point out that such pleasant dreams in the past have always been shattered by national insolvency or a runaway inflation. Here we shall have to say simply that all government expenditures must eventually be paid out of the proceeds of taxation; that to put off the evil day merely increases the problem, and that inflation itself is merely a form, and a particularly vicious form, of taxation.

Having put aside for later consideration the network of fallacies which rest on chronic government borrowing and inflation, we shall take it for granted throughout the present chapter that either immediately or ultimately every dollar of government spending must be raised through a dollar of taxation. Once we look at the matter in this way, the supposed miracles of government spending will appear in another light.

A certain amount of public spending is necessary to perform essential government functions. A certain amount of public works—of streets and roads and bridges and tunnels, of armories and navy yards, of buildings to house legislatures, police and fire departments—is necessary to supply essential public services. With such public works, necessary for their own sake, and defended on that ground alone, I am not here concerned. I am here concerned with public works considered as a means of “providing employment” or of adding wealth to the community that it would not otherwise have had.

A bridge is built. If it is built to meet an insistent public demand, if it solves a traffic problem or a transportation problem otherwise insoluble, if, in short, it is even more necessary than the things for which the taxpayers would have spent their money if it had not been taxed away from them, there can be no objection. But a bridge built primarily "to provide employment" is a different kind of bridge. When providing employment becomes the end, need becomes a subordinate consideration. "Projects" have to be *invented*. Instead of thinking only where bridges *must* be built, the government spenders begin to ask themselves where bridges *can* be built. Can they think of plausible reasons why an additional bridge should connect Easton and Weston? It soon becomes absolutely essential. Those who doubt the necessity are dismissed as obstructionists and reactionaries.

Two arguments are put forward for the bridge, one of which is mainly heard before it is built, the other of which is mainly heard after it has been completed. The first argument is that it will provide employment. It will provide, say, 500 jobs for a year. The implication is that these are jobs that would not otherwise have come into existence.

This is what is immediately seen. But if we have trained ourselves to look beyond immediate to secondary consequences, and beyond those who are directly benefited by a government project to others who are indirectly affected, a different picture presents itself. It is true that a particular group of bridgeworkers may receive more employment than otherwise. But the bridge has to be paid for out of

taxes. For every dollar that is spent on the bridge a dollar will be taken away from taxpayers. If the bridge costs \$1,000,000 the taxpayers will lose \$1,000,000. They will have that much taken away from them which they would otherwise have spent on the things they needed most.

Therefore for every public job created by the bridge project a private job has been destroyed somewhere else. We can see the men employed on the bridge. We can watch them at work. The employment argument of the government spenders becomes vivid, and probably for most people convincing. But there are other things that we do not see, because, alas, they have never been permitted to come into existence. They are the jobs destroyed by the \$1,000,000 taken from the taxpayers. All that has happened, at best, is that there has been a *diversion* of jobs because of the project. More bridge builders; fewer automobile workers, radio technicians, clothing workers, farmers.

But then we come to the second argument. The bridge exists. It is, let us suppose, a beautiful and not an ugly bridge. It has come into being through the magic of government spending. Where would it have been if the obstructionists and the reactionaries had had their way? There would have been no bridge. The country would have been just that much poorer.

Here again the government spenders have the better of the argument with all those who cannot see beyond the immediate range of their physical eyes. They can see the bridge. But if they have taught themselves to look for in-

direct as well as direct consequences they can once more see in the eye of imagination the possibilities that have never been allowed to come into existence. They can see the unbuilt homes, the unmade cars and radios, the unmade dresses and coats, perhaps the unsold and ungrown foodstuffs. To see these uncreated things requires a kind of imagination that not many people have. We can think of these non-existent objects once, perhaps, but we cannot keep them before our minds as we can the bridge that we pass every working day. What has happened is merely that one thing has been created instead of others.

2

The same reasoning applies, of course, to every other form of public work. It applies just as well, for example, to the erection with public funds of housing for people of low incomes. All that happens is that money is taken away through taxes from families of higher income (and perhaps a little from families of even lower income) to force them to subsidize these selected families with low incomes and enable them to live in better housing for the same rent or for lower rent than previously.

I do not intend to enter here into all the pros and cons of public housing. I am concerned only to point out the error in two of the arguments most frequently put forward in favor of public housing. One is the argument that it "creates employment"; the other that it creates wealth which would not otherwise have been produced.

Both of these arguments are false, because they overlook what is lost through taxation. Taxation for public housing destroys as many jobs in other lines as it creates in housing. It also results in unbuilt private homes, in unmade washing machines and refrigerators, and in lack of innumerable other commodities and services.

And none of this is answered by the sort of reply which points out, for example, that public housing does not have to be financed by a lump sum capital appropriation, but merely by annual rent subsidies. This simply means that the cost is spread over many years instead of being concentrated in one. It also means that what is taken from the taxpayers is spread over many years instead of being concentrated into one. Such technicalities are irrelevant to the main point.

The great psychological advantage of the public housing advocates is that men are seen at work on the houses when they are going up, and the houses are seen when they are finished. People live in them, and proudly show their friends through the rooms. The jobs destroyed by the taxes for the housing are not seen, nor are the goods and services that were never made. It takes a concentrated effort of thought, and a new effort each time the houses and the happy people in them are seen, to think of the wealth that was not created instead. Is it surprising that the champions of public housing should dismiss this, if it is brought to their attention, as a world of imagination, as the objections of pure theory, while they point to the public housing that exists? As a character in Bernard Shaw's *Saint Joan* replies

when told of the theory of Pythagoras that the earth is round and revolves around the sun: "What an utter fool! Couldn't he use his eyes?"

We must apply the same reasoning, once more, to great projects like the Tennessee Valley Authority. Here, because of sheer size, the danger of optical illusion is greater than ever. Here is a mighty dam, a stupendous arc of steel and concrete, "greater than anything that private capital could have built," the fetish of photographers, the heaven of socialists, the most often used symbol of the miracles of public construction, ownership and operation. Here are mighty generators and power houses. Here is a whole region lifted to a higher economic level, attracting factories and industries that could not otherwise have existed. And it is all presented, in the panegyrics of its partisans, as a net economic gain without offsets.

We need not go here into the merits of the TVA or public projects like it. But this time we need a special effort of the imagination, which few people seem able to make, to look at the debit side of the ledger. If taxes are taken from people and corporations, and spent in one particular section of the country, why should it cause surprise, why should it be regarded as a miracle, if that section becomes comparatively richer? Other sections of the country, we should remember, are then comparatively poorer. The thing so great that "private capital could not have built it" has in fact been built by private capital—the capital that was expropriated in taxes (or, if the money was borrowed, that eventually must be expropriated in taxes). Again we

must make an effort of the imagination to see the private power plants, the private homes, the typewriters and radios that were never allowed to come into existence because of the money that was taken from people all over the country to build the photogenic Norris Dam.

3

I have deliberately chosen the most favorable examples of public spending schemes—that is, those that are most frequently and fervently urged by the government spenders and most highly regarded by the public. I have not spoken of the hundreds of boondoggling projects that are invariably embarked upon the moment the main object is to “give jobs” and “to put people to work.” For then the usefulness of the project itself, as we have seen, inevitably becomes a subordinate consideration. Moreover, the more wasteful the work, the more costly in manpower, the better it becomes for the purpose of providing more employment. Under such circumstances it is highly improbable that the projects thought up by the bureaucrats will provide the same net addition to wealth and welfare, per dollar expended, as would have been provided by the taxpayers themselves, if they had been individually permitted to buy or have made what they themselves wanted, instead of being forced to surrender part of their earnings to the state.